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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK
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CENGAGE LEARNING, INC., ET AL,

Plaintiffs,

v. 16 CV 7123 (WHP)

BOOK DOG BOOKS, LLC, ET AL,

Defendants. MOTIONS IN LIMINE

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New York, N.Y.
December 14, 2017
9:36 a.m.

Before:

HON. WILLIAM H. PAULEY III,

District Judge

APPEARANCES

OPPENHEIM & ZEBRAK
Attorneys for Plaintiffs
BY: MATTHEW OPPENHEIM
SCOTT ZEBRAK

MANDEL BHANDARI
Attorneys for Defendants
BY: EVAN MANDEL
RISHI BHANDARI
ALYSSA L. VICKERS
ROBERT A. GLUNT

(Case called)

THE COURT: Good morning to all of you.

I have allotted roughly an hour and-a-half to deal with the 12 motions *in limine* by my count that are outstanding. I'd like to move through these; some obviously are more complicated than others.

For purposes of this argument, you can remain seated. Pull the microphone close to you so we will all be able to hear. Don't put those mikes too close because you know what can happen.

I'm going to turn to the motions in the order in which they were briefed, starting with the plaintiffs', all of the plaintiffs' motions *in limine*, and then I'll proceed to the defendants' motions *in limine*.

First up is the motion precluding testimony from Professor Wu.

Mr. Oppenheim, Dr. Wu is obviously qualified and did a standard statistical analysis. Even if you point to errors in his assumptions and methods, why doesn't that go to the weight of his conclusions?

MR. OPPENHEIM: Your Honor, with your permission --

THE COURT: And you can remain seated so that we can all hear.

MR. OPPENHEIM: It's habit. I apologize.

I'll let my colleague Mr. Zebrak address this motion.

THE COURT: All right.

MR. ZEBRAK: Thank you, your Honor.

So with Professor Wu -- and we certainly understand the tension between admissibility versus just weight of testimony.

But at some point the foundational defects of testimony become so extensive that, as it is, we have a very tight time frame, given the issues that we intend to cover. And Professor Wu, we don't challenge his underlying qualifications. He has the pedigree to be an expert, we acknowledge that; it's just really he, in a very short time frame, went out and began his work with a data set that he had no idea where it came from, what it meant, how it was compiled. And upon that he based his whole analysis.

Our issue with how he acquired the data set is not the mode of transmission, that it happened to come from an employee of defendant, rather than the third party whose data it purports to be. It's the larger set of circumstances where there's just no understanding as to the provenance of the data or the integrity of the data.

Professor Wu acknowledges he has no understanding of how the data was compiled or by whom; he has no idea how the person that forwarded it to him obtained the data for if additional data exists that would shine a light on these issues. He has no idea if the data is accurate, comprehensive,

or even altered.

The third party MBS, whose name will come up quite a bit today, initially produced this data set as we understand it in the form of two very large Excel spreadsheets purporting to represent their sales data and acquisition data for 118 different titles. What Professor Wu received from defendants' former employee, John Glass, was a single large txt file. That's it. There's no testimony of record of how that relates to the two documents produced by MBS and, by the way, that were never the subject of any deposition testimony from MBS.

THE COURT: Why can't he just be crossed on that?

MR. ZEBRAK: He certainly could, your Honor. In our view, it's a waste of time and resources and confusion for the jury, including -- there's a few other points I'd like to make, but including because plaintiffs shouldn't have to suffer the risk of unfair prejudice by Professor Wu walking in and parading out statistics about why, with respect to 18 or 22 titles, the evidence that defendants distributed those titles to MBS is nonexistent or statistically insignificant, when it's a house of cards.

Juries put a lot of emphasis on expert testimony in the form of someone with this pedigree. If Professor Wu testifies, then we are going to have to bring our rebuttal expert, Professor McCabe, which will complicate the trial. There are several other points about why his testimony is

unreliable for *Daubert*.

THE COURT: They are in the briefing.

MR. ZEBRAK: Yes, your Honor.

THE COURT: If we spend a lot of time on this motion, we are not going to get to others that, in my view, are more complicated.

Mr. Mandel, tell me who compiled the data that Dr. Wu relied on?

MR. MANDEL: Mr. Glunt will handle this motion.

THE COURT: All right.

MR. GLUNT: Good morning, your Honor.

So what I think is important to know is that the plaintiffs are not only not questioning Dr. Wu's qualifications, they are also not actually challenging whether he did the calculation properly. While they have made some comments about the provenance of the data -- so let me just put it very simply.

This is a text file. The text file was fed into a MATLAB program that Dr. Wu describes having put together in his report. And the text file was prepared by John Glass, who was an employee of the defendants.

The data obviously came --

THE COURT: Is he going to testify?

The point is obviously that the plaintiffs are going to attack the underlying database that Dr. Wu relied on. So

what are you going to offer to the jury in terms of lending legitimacy and credibility to that database?

MR. GLUNT: Well, your Honor, the underlying Excel spreadsheets from which the text file was compiled have been identified and will be offered into evidence by way of a record certification that we've obtained from MBS.

The other thing I wanted to note, your Honor, is they have their own statistical expert who has also looked at this data. I think it's a little bit disingenuous to suggest that there may be alterations or there may be problems or changes or anything of that nature, when their expert, running the same calculation, didn't discover any evidence of that.

This is a file that was reformatted so that it could be fed into a computer program. It was originally in Excel format; it then was changed into a txt format. While that reformatting wasn't done by Dr. Wu himself, I don't think there's anything to suggest that fundamentally alters whether his analysis is credible and admissible or not, particularly when, as I've noted, their own expert hasn't challenged whether the analysis was done properly or whether, when you run that analysis on the data, you actually get a different result.

MR. ZEBRAK: Your Honor, very briefly.

Another issue with our preclusion motion here is that MBS produced these two Excel spreadsheets back in BDB1, three, four years ago, I don't remember the exact date.

Defendants' counsel did not depose MBS about these Excel spreadsheets, authenticate the documents, or anything of that sort. The evidence certification that defendants' counsel just mentioned is something that they just obtained after we filed our motion *in limine*.

So the idea is MBS produced these two Excel spreadsheets years ago; and then several years later they just obtained this records documentation that, by the way, they only obtained it long after discovery closed in both cases, and only after they went to Magistrate Judge Gorenstein to obtain leave to take MBS's deposition on four books in BDB2. And in lieu of that deposition, lo and behold, this record certification is produced that goes well beyond merely even saying that it's records; it goes to explaining what they are.

From opposing counsel they've refused to even let us know whether drafts went back and forth with MBS. The whole context upon which Dr. Wu did this analysis was improper from the start, it was an unreliable data set, and we just have substantial concerns about the distraction and confusion this will have on the jury not only for the 18 titles that they want to cover with him, but more broadly in the case.

THE COURT: All right.

Let's turn to the next motion.

Plaintiffs' motion *in limine*, seeking to preclude testimony from Gerard Hiller.

Here, again, for plaintiffs' counsel, won't testimony from Hiller provide necessary and appropriate background information on counterfeit detection in the publishing industry?

MR. ZEBRAK: Well, your Honor, there's a few points in response to that.

The first point is that only a small and largely noncontroversial portion of his testimony actually concerns the existence of counterfeits in the industry and how that's evolved over time and generally how textbook distributors have reacted to it.

Really, as identified in our papers, our core concerns with his testimony is that whatever expertise he has by dint of having worked in Nebraska Books for those years, he's far beyond any expertise; and he's really into that area of *ipse dixit* where he has little to no understanding of what other publishers -- excuse me, other textbook distributors have done to detect counterfeits, when, if at all, they stop buying from suppliers of counterfeits, and what they do with respect to the counterfeits they've obtained.

He, by his own very clear and uncontroverted deposition testimony, said he has no firsthand knowledge or personal experience of what other textbook distributors do. He's never spoken with any of them either when he worked at Nebraska Books or afterwards. He made no effort to inform

himself during his expert retention here of what other textbook distributors have done. Rather, he was hired by defendants' counsel in this case; he had a conversation; he sat down and wrote a report, citing nothing, not even appending his supposed statements about state of mind about other textbook distributors and their policies and practices and what they do with counterfeits to any personal experience, any research, any conversations, nothing.

Fundamentally, even if his testimony were for some proper purpose -- and I'd like to speak to that for a moment, your Honor, but we'll put that aside for the moment, just fundamentally, it's just unreliable. He can't assist the jury with speculation and conjecture and subjective beliefs about what other textbook distributors do; yet defendants wish to put in front of the jury this idea that textbook distributors, even when they act in good faith and -- or excuse me.

What they intend to do is put before the jury an argument that even when textbook distributors follow whatever Mr. Hiller defines as all customary practices, they still can't detect all counterfeits, and that their subsequent sales are inadvertent or unknowing. And inevitably that causes us extreme prejudice because a jury is going to then think that defendants, likewise, that their distribution is unintentional. This is really the trial themes that defendants want to offer. With all due respect to Mr. Hiller, because I met him, he's a

serious person, I have no issue with that, but he's really here as a mouthpiece to advance the themes that they have touted from day one in the case in which to offer. He did no work, spoke with no one, has no basis for these statements.

I could go on in more detail or address the improper purpose, if that would be acceptable, your Honor.

THE COURT: I think I've got it.

Let me ask defense counsel, what qualifies Hiller to speak to industry practices in general, rather than only his own experience at the Nebraska Book Company?

MR. MANDEL: Sure. Three points, your Honor.

First, he spent 30 years in Nebraska Book Company. The case law is very clear that that kind of extensive experience with even just one employer is sufficient to testify as to market practices. We cited those cases. They have not cited a single case, your Honor, for the contrary proposition that employment at one major participant in the industry for any period of time is insufficient. The reality is one employer is sufficient under the case law.

Second, Mr. Hiller has reviewed the deposition transcripts that Chegg, Follett, and MBS have provided in this case.

By the way, many of the questions about market practices that those witnesses answer were actually asked by the plaintiffs, not by the defendants. So during the discovery

phase of this case, they were extremely interested in learning about these participants' market practices. So we were somewhat surprised at the end to learn that suddenly they didn't want market practice testimony.

THE COURT: What's the purpose of Hiller's testimony?

MR. MANDEL: Sure. There's a threefold purpose of Mr. Hiller's testimony.

The first is, very simply, it speaks to whether the books at issue in this case were sourced from defendants or whether they were sourced from some third party. As this Court is aware, on the summary judgment motion we argued the plaintiffs had insufficient evidence, circumstantial evidence, to get past summary judgment.

Judge Gorenstein agreed with us with respect to 117 of the 161 works at issue in this case. Your Honor reversed Judge Gorenstein. Your Honor said circumstantial evidence is enough.

So what the jury is going to be asked to do in this case is infer that a book that was found in one of our customers' shelves came from us. In order to do that, the jury has to determine that our customers had a million sources, it wasn't just us. Is it more likely than not that that book was sourced from defendants, or is it more likely than not that this book was sourced from third parties. That's the liability portion of the case, of course. If all the other major distributors are following the same market practices, there is

no reason to infer that the book came from us. So that's the first reason it's relevant it goes to liability.

The second reason is it speaks to willfulness. As far as I know, only two cases in federal courts or any court have considered the issue of whether market-practice testimony is relevant in a copyright case. Both cases which we cite concluded it absolutely is relevant. The plaintiffs point out there's not a ton of reasoning in those cases, and they are right about that. I think there's not a ton of reasoning in those cases because the answer is obvious.

Since Judge Hand for the Second Circuit 100 years ago said that reasonable prudence is typically common prudence, in virtually every kind of tort case, market practice testimony, industry custom and usage evidence is relevant to determine the defendant, the alleged tort feasor's state of mind. So the determination that is made in these cases is was there a deviation from the standard of care in the industry.

So in making the willfulness determination, the jury has to understand what is everyone else doing? Was there a departure from the standard of care; and because it's recklessness, they're going to have to show a very substantial departure.

THE COURT: Isn't that inviting the jury to disregard what Book Dog did because everyone infringes?

MR. MANDEL: Absolutely not.

Their motion on this issue is directed to an argument we are not going to make and they know we are not going to make it, because Mr. Smyres, who is a defendant and the owner, the CEO, testified, We hate counterfeit books. We do everything we can to stop counterfeit books. We do not think it's right to sell a counterfeit book. We think all distributors, every participant in the marketplace, has an obligation to take reasonable steps to stop counterfeit books. We hope our suppliers and our customers do that, because it is a closed system and we are all constantly selling each other books.

We are never going to argue at any point, either the lawyers or the witnesses, no one is ever going to argue that it is acceptable to sell a counterfeit book. That argument, it's not just something we personally disagree with, but it wouldn't help us in front of the jury at all. That would make us look terrible and lead to a very punitive award. I understand that's what they want to pretend that we are arguing, but that is not at all what we are arguing.

That brings me to the third reason all of this testimony is relevant, which is they want to offer -- I apologize if I'm a little loud.

THE COURT: Just a teeny bit.

MR. MANDEL: They would like to offer evidence that they suffered actual injury. This Court has ruled that they are permitted to offer such evidence. And that's fine. They

can say, We are hurt, you know, in all these ways by counterfeit books.

We are allowed, under the precedence that they cite, to respond to that by simply saying, That may be true, you may be hurt. But most of that is not the result of the defendants' behavior.

There's a causation requirement here. They've got to show that the harm came from us. And if, in fact, we are doing a far better job than everyone else, and the overwhelming majority of counterfeit books that are out there were sold by someone other than us, then, in fact, that injury should not be attributed to us and they have not met their burden on causation and damages.

THE COURT: All right. Mr. Zebrak.

MR. ZEBRAK: Your Honor --

THE COURT: If you want to stand, you can, but just stay close to the mic.

MR. ZEBRAK: The judge I clerked for in the Eastern District of Virginia, if someone were seated down, he would just say, I'm sorry, are you talking to me? I can't hear you.

THE COURT: Generally, proper practice in federal court is to stand, and I enforce that rule uniformly except in a rare situation like this where I have multiple lawyers who are making arguments on different motions and we need to move through with expedition.

MR. ZEBRAK: Yes, your Honor. And we certainly appreciate that.

THE COURT: All right.

MR. ZEBRAK: I'm going to address both facets of our motion, beginning though with the reliability piece, then moving to the improper purpose; although many of the issues sort of cross-pollinate.

There were a number of statements from defendants that are just flat out not right.

Yes, as a general matter, you can work and have substantial experience at one employer and be qualified to be an expert. But the cases don't say, of course, that you can then offer testimony outside your expertise. And that's just a simple proposition that we offer.

And it's clear, if you look at his expertise, it's internal at Nebraska Books. It's very clear he doesn't know what other distributors do in terms of how they buy books, their detection practices, when they cut off -- stop buying from suppliers, what they do with the books, what records they keep. Those are all just themes from defendants to try to have a jury overlook the truly irresponsible behavior by their client.

As a practical matter, he just can't testify where he has no experience personally. Or, alternatively, he could have gone out and done the research, done the work. That's what

individuals do when they testify, having worked at one employer, they then read deposition testimony, transcripts, they call people, they do research. He did none of that.

Quite frankly, your Honor, what happened is he formed his opinions, wrote a report. He then amended his report. He amended the report not to change any opinions or to form new opinions, it was solely with an eye toward being at a hearing like this where defendants' counsel could say he considered deposition transcripts and he considered this Exhibit B that defendants' counsel created that we'll get to. He admits he did not review those to inform his opinions. At most, he says, at a vague, general, metaphysical level, it corroborates my beliefs. He made no notes; he doesn't footnote his report. He really had no ability to link any of his statements to those transcripts.

We actually reviewed those transcripts. We submitted a declaration from one of our counsel, which highlights part of the problem we would have with an expert like this, is that those third parties didn't testify to the things that he says in his report that he admits were outside his personal knowledge and are not in this third-party deposition testimony.

The case law is very clear. You can't establish reliability by, after the fact, giving him deposition transcripts and giving him this document that defendants' counsel created that, your Honor, purports to be the results of

an audit at one third-party distributor at a very summary level. It's been paraded into court by defendants' counsel on several occasions. It's clear defendants' counsel created it. The witness admitted he didn't create the document. In their briefing they indicate that it is derived from data in the documents he was given with the deposition transcripts after the fact. This is the so-called evidence of infringement by others that defendants wish to introduce in order to essentially avoid liability and avoid a finding of willfulness under this rubric that everyone infringes and we're either in good company because we adhere to the same practices as everyone else, or we meet or exceed those standards.

Judge Gorenstein actually in the discovery hearing recognized how convoluted their attempt to use this document is. It was more just *dicta* adhering. But the idea is, your Honor, there's two types of evidence we are relying on both, direct and circumstantial. As defendants point out, with respect to the counterfeits in BDB1, a substantial amount of those books we rely on circumstantial evidence for. In BDB2 it's direct evidence where we obtained it from test purchases or the books actually have the defendants' stickers on them or other clear stamps and markings indicating where the third party got it from.

What defendants wish to do is take this other infringement evidence in the form of an audit report from an

audit done in 2016, for a wide swath of titles going far beyond the titles in this case and, again, the wrong time period. And they want to take that data and somehow have it relate back to the titles in the case from which that specific distributor or some other distributor surrendered books to us that we determined are counterfeit.

So the idea, just to illustrate, would be in 2012, for example, Distributor X surrenders a book to us; we determine it's counterfeit. The defendants wish to use an audit report from 2016 to say that of the books examined at that distributor at that time, going far beyond the titles in this case, wrong temporal relation, that means it's less likely we supplied the books or that we're willful because others -- essentially, the we're-not-Napster defense; that others had a greater proportion of counterfeits in that one sample, which, of course, isn't even a statistically sound sample. For all we know the distributor was already engaging in more careful practices with regards to the defendants, where they just sold the defendants books. It's an isolated, misleading, incredibly prejudicial snapshot that both generically in the case, through their witnesses or third parties or with our witnesses they hope to use, as well as this is one of the two documents that, after Mr. Hiller did his work, which, again, goes beyond his expertise, it's one of the two sets of materials the defendants provided to them.

THE COURT: I think I've got it. You're starting to repeat yourself now, all right?

MR. ZEBRAK: Yes, your Honor.

THE COURT: Let's turn to plaintiffs' motion to preclude Quintero's rebuttal testimony.

With respect to this motion -- and this is directed at plaintiffs' counsel -- your own expert reached conclusions regarding Smyres' likely tax treatment. Why doesn't that then allow Quintero to describe Smyres' actual tax rate?

MR. OPPENHEIM: Your Honor, I'm sorry. To what specifically are you referring when you say that Mr. Steinmetz reached conclusions about Mr. Smyres' tax treatment? Respectfully, I'm a little confused by that.

THE COURT: Why isn't Quintero's explanation of defendants' profitability, compared to other textbook sellers, relevant to rebut Steinmetz's conclusions about defendants' profitability?

MR. OPPENHEIM: So there are two issues here and I want to try to separate them out. One is Quintero's testimony about the Smyers businesses compared to the industry. And the other is Smyers' post-tax profitability.

With respect to the first, Mr. Quintero is providing testimony that he claims -- or defendants claim is rebutting Steinmetz. I'd like to quote something directly from the defendants' brief. They say that it's rebutting Steinmetz's

report which says that the defendants' revenues have been "artfully suppressed for purposes of litigation."

There is nothing within Mr. Steinmetz's report that says that.

What Mr. Steinmetz opines on is what he views as the profitability of the defendants' businesses based off of the review of the financial records that he's seen and been provided to. He doesn't compare it to the industry; he simply looks at their own financial records that were provided.

Now, there are issues that the defendants raise where they disagree with Mr. Steinmetz.

THE COURT: Doesn't Steinmetz say that Smyres may have more profits than the records provide?

MR. OPPENHEIM: He says that because records were not provided. That issue may be solved, your Honor, by your request that we engage in some additional financial discovery. So depending on what defendants choose to produce and what happens, that issue may go away, I don't know.

But what he said is, Since I haven't seen these records, there could be additional profits contained within those records. An entirely appropriate opinion given that the records weren't produced.

But nowhere in Steinmetz's opinion does he speak to Mr. Smyres' profitability compared to the industry. So Mr. Quintero's opinion on that can't possibly be rebuttal.

Steinmetz is simply saying, I'm looking at the books and records; this is what I think the profits of the business are.

Quintero should come back and say, Based on my review of the books and records, I disagree with Steinmetz on the profits of the records for the following reasons, boom, boom, boom, boom. And the two experts can opine on their opinions of what the profits are. *Mano-a-mano*.

But once you start saying, Well, compared to the industry what the defendants are trying to do is to suggest that, Well, Mr. Smyers, even though he's making millions and millions of dollars every year, which understates it, but even though he's making that, actually his business is dwindling and he's not doing so well. What they want to do is put in front of the jury that maybe he's not as profitable as he is because the industry is on the decline.

There is no testimony from the plaintiffs on where the industry is going; that is not rebuttal testimony; it is improper. So that's number one.

Two, Quintero has absolutely no basis to opine on this.

THE COURT: All right. I think I've got it.

Just following on Mr. Oppenheim's last point, why is such testimony relevant from Quintero?

MR. MANDEL: Regarding the industry?

THE COURT: Right.

MR. MANDEL: Sure.

On page 6 of Mr. Steinmetz's report he states that the profits of the defendants "appear to be understated." It's obviously rebutting what they are saying and what they want to say. What they've asked for an adverse inference on is defendants are hiding their profits because of A and B and C; they must really be making more money than they are claiming to make.

Our response is, No, it's false with respect to all of our own records and everything you're saying is wrong. But our other response is, By the way, the industry has declining profits and revenues; it's in a very challenging position right now. So the fact that you might see dips in particular years, particularly with respect to a certain business line doesn't mean we are hiding profits; it means we are suffering an adverse business climate that everyone in the industry is suffering.

MR. OPPENHEIM: Your Honor, may I respond to that?

THE COURT: For just a moment.

MR. OPPENHEIM: So Steinmetz does not say that profits are being hit. That's putting words in Steinmetz's mouth; that's not what he says.

Where he takes issue is, for instance, where there are certain profit shares -- and their own annual reports call them profit distributions -- where profit distributions are made to

other entities.

The defendants have characterized them within their annual reports, their financial reports, as expenses.

Mr. Steinmetz is a CPA, says, Based on my view of these, they are not expenses, they are profit distributions. That's what he means when he says they are understated. Nothing about this has to do with industry trends.

If they are going to present a witness on the industry, A, they should get a real witness who has a background in industry trends; B, they should have done it before the deadline; and C, we should have an opportunity to put together rebuttal on that. But none of that has happened. Mr. Steinmetz would never be in a position to speak to industry trends in the same way that Mr. Quintero is not.

Would you like to turn to the tax issue, your Honor?

THE COURT: For a moment, yes.

MR. OPPENHEIM: Your Honor, the fundamental problem with the tax analysis by Quintero, apart from the fact that it's not rebuttal, the fundamental problem is that the analysis he did, it's hypothetical and so it's unreliable. If he's going to wear the cap of being an expert within this Court and testify as an expert, his analysis has to be real.

What he did is he was told by somebody -- we have no idea who -- here are the tax rates that Mr. Smyres paid in each of these years. We don't know how those were calculated; we

don't know where they came from. They presumably came from tax returns which were never produced. They could have produced them; we asked for financial records; they did not produce them. They gave Mr. Quintero some numbers, and he applied those numbers to each of the entities. Some of those entities don't even pay as passed through to Mr. Smyres, so they pay through other entities, so the application of those numbers to those entities doesn't make any sense.

But the idea that you are going to take some percentage number and apply it and say, That's what Mr. Smyres paid in taxes is not accurate.

If they want to put forward what Mr. Smyres paid in post-tax -- excuse me. If they want to put forward what Mr. Smyres' profits were post tax, then they should have produced the tax returns and we could have taken depositions and examinations on those after we had reviewed them. This is no way to do it as a rebuttal witness without the actual documents in front of us.

THE COURT: All right.

MR. MANDEL: Can I just respond to the taxes point, your Honor, very briefly?

THE COURT: Go ahead.

MR. MANDEL: In BDB1, the defendants and the plaintiffs stipulated as to what Mr. Smyres' taxes were without there being any production of tax returns whatsoever. So the

stipulation is contained in Exhibit G to our declaration, which is Document 256 on the docket. It says right there what our taxes were. The taxes were never produced. We were absolutely relying upon that practice in the first case when we continued it in the second case, assuming that that stipulation would just be supplemented.

But the taxes, I think there's no dispute about relevance, but I just want to be crystal clear. It's relevant for three reasons:

First, the parties have already stipulated to its relevance in that stipulation in Exhibit G. Although that stipulation only goes through 2012, it went through 2012 because we were expecting to try the case shortly after that. Certainly because they brought a second case and dragged this whole process out for several years, we are entitled to supplement that and have that tax information for subsequent years.

Two, it is undisputed that if taxes were paid at the corporate level, taxes would be relevant. It should come out no differently simply because this is the pass-through entity.

And third, it's undisputed and they have sought in a very dogged way all of the profits. During discovery they sought as much information as they possibly could about the profits that Mr. Smyres received from this business. You can't look at the profitability of any business without looking at

the taxes that are paid on that business.

THE COURT: If there was a stipulation between the parties relating to the years up to 2012, why isn't there a stipulation for the same information up to 2016?

MR. MANDEL: We offered that. We begged them. We said, Let's just do another stipulation. Let's not each have experts on this issue; let's not have a whole folic and detour. And they refused to do the stipulation.

THE COURT: Why?

MR. MANDEL: They can say why.

THE COURT: Mr. Oppenheim.

MR. OPPENHEIM: So Mr. Mandel has misstated the record. He wasn't counsel at the time and maybe that's why.

The defendants, prior to our entering into that stipulation, produced detailed financial records. I believe they did produce actually the tax returns; but they produced bank statements on a monthly basis. They produced all the financial records for all of the entities. Everything they produced in BDB1 they refused to produce in BDB2. We couldn't possibly enter into a stipulation; we had no idea what the numbers were, your Honor. We would have gladly have done it if they had produced the same records, which they refused to do, notwithstanding repeated orders by Judge Gorenstein.

THE COURT: Was that issue regarding production of those financial records litigated before Judge Gorenstein?

MR. OPPENHEIM: Absolutely. And he repeatedly ordered their production, and they weren't produced, which was the basis for our motion for an adverse inference, your Honor.

THE COURT: I think a lot of that could be obviated by conducting some discovery between now and the time of trial on that issue.

MR. OPPENHEIM: Your Honor, we would love to have a stipulation on profitability. Respectfully, we are going to disagree about certain things. The Garrison profit distributions we're never going to reach agreement on. But on other issues we might reach agreement if they actually produce complete records.

Your Honor, we've asked for additional records since the conversation we had with your Honor last week. Already I believe Mr. Mandel has suggested that they may not be producing any additional financial records. So we may be back here, your Honor. We'll see.

THE COURT: All right.

Let me turn to the plaintiffs' omnibus motion that has a number of parts to it.

First, with respect to precluding defendants from offering evidence of copyright infringement by other distributors.

First, what's the relevance of this evidence?

MR. MANDEL: It's the same three issues I mentioned

before in connection with custom and practice. It's one, it goes to liability --

THE COURT: It's intertwined, right?

MR. MANDEL: It is, your Honor.

THE COURT: Are you going to be offering this kind of evidence in your case-in-chief or cross-examining on it?

MR. MANDEL: The short answer is both. Primarily I think in our case-in-chief. I think where it will come in on cross-examination is whichever witness they have to talk about the evidence contained in their roadmap, whatever witness is saying, You should draw an inference that we found a book in your customer's shelf and we think it's counterfeit and here's why we think it came from the defendants, we will probably have to cross-examine that person on the issue of, Well, we are not the only ones who provided that customer with counterfeits. Isn't that the case? Isn't it the case that you found -- we only sold them ten copies; and you found 1,000 counterfeits on their shelf. So why is it you would think that that would come from us as opposed to from all of the other customers?

THE COURT: All right. Go ahead.

MR. ZEBRAK: May I respond to that?

Your Honor, at a high level we believe this case should be -- the focus should be the defendants' conduct, not the conduct of others. They wish to use this evidence to rebut arguments that we have not made and will not make at trial.

We do not contend and will not contend that they are the only source of counterfeits in the market. We have not contended and will not contend that their practices are the same, worse, or better than others. We are not making comparisons.

THE COURT: But to determine if the defendants took enough precautions, won't the jury need to compare what they did against what others did?

MR. ZEBRAK: A couple points in response to that, your Honor.

At a high level, respectfully the answer is no.

First of all, just before we lose responding to defendants' point, the issue here is that if there's a sliver of potential relevance for this data, that they attempt to drive a truck through it.

We are okay if they wish to say that, Well, with respect to title X, well, we found infringing copies of those titles; other suppliers had sold copies of those titles and the record reflects that. If it's focused on the titles, that's one thing. But what they want to do is use an audit report that, again, out of time concerning other titles, in effect, to establish this idea of who's better or worse than others and make these metaphysical arguments about liability. It's pure speculation; it's not tied to any evidence. So if they wish to tie it to the titles in the case, that's one thing, for

example, in response to the roadmap. But that's not what they are doing, your Honor. If they wish to do that, that would be fine with us.

At a high level, there's two other points, your Honor.

One is Congress established strict liability and established a damages regime, including with deterrence being prominent among that. Our focus is on the defendants' conduct, what their strict liability -- what they did with their detection processes and how that evolved over time relative to our copyrights and what they knew or didn't know. The jury will look at that to make its determination on willfulness rather than looking at some vague statements about what some other distributor did process-wise at a point in time.

This gets back to the improper purpose, both for Mr. Hiller and in this respect. The fact that you may be speeding on the highway, by analogy, and others are also speeding at the same rate as you or speeding at a higher rate, that doesn't allow you to avoid either paying a ticket or paying the appropriate fine. And make no mistake, that's what they want to use it for.

How it compares to others, if others are similarly using poor practices, that doesn't mean they are not willful. We would greatly extend this trial out with very confusing testimony that would have a jury really confused about what's relevant or not. And they don't, again, even have an

appropriate vehicle for this because Mr. Hiller is relying on subjective beliefs, *ipse dixit*, so it's all intertwined.

THE COURT: All right. Look, this motion and the next motion, seeking to preclude third-party counterfeit detection policies and practices, they really raise precisely the same issues, don't they?

MR. MANDEL: They do, your Honor.

All I'll say in response is they have not pointed to a single tort case in which the defendant's state of mind was at issue, and custom-and-practice evidence was excluded. They have not pointed to a single case. They have pointed to a number of cases that say, You can't argue that it's lawful or permissible to sell a counterfeit book. That is a totally different argument; we would never make that argument, as I have already described.

To exclude custom-and-practice evidence in this case would be extraordinary and unprecedented.

MR. ZEBRAK: Your Honor, just very briefly, copyright law has been around a long time, as has tort law. And there are tort concepts in copyright. But, tellingly, they cite a total of two cases for custom-and-practice evidence that has come in for the purposes they wish to use it for. Those two cases, as they acknowledge, we point it out in our papers, those two cases cite no precedent, have no reasoning provided, and have not been relied on by any other cases for those

propositions.

Conversely, there's a long history of how juries deal with willfulness, and it does not involve custom-and-practice testimony. Where custom-and-practice testimony comes in, your Honor, may concern how an industry regards a licensing term and what a word means. But this idea of other people's practices and whether you're in good company or not, there's just no basis for it.

Several judges in this very district, your Honor, have dealt with this. They go on in their papers attempting to distinguish these cases, but they can't, both on liability and willfulness in the cases we cited. One was Judge Duffy in *Grand Upright Music v. Warner Brothers*; the other was Judge Wood in the *LimeWire* case.

To the extent there's a thin read of potential relevance -- and we dispute that there is -- it's so far outweighed by the copyright concepts. Mr. Mandel just mentioned we're not arguing against tort law. That's precisely our point, your Honor. Copyright law is strict liability, not negligence; and copyright law has policy-driven reasons for deterrence.

The fact that he's availing himself -- or defendants are availing themselves of this law that just has no application here, it's very similar, your Honor, to what the Supreme Court has said about statutory damages actually; it

just came to me as we're sitting here now. But they similarly cite to the punitive damages cases concerning what's relevant on statutory damages. But Congress has already established policy reasons in a statute. And it's copyright law that applies here your Honor, it's not tort law.

THE COURT: All right. Let's move on to the sixth motion, precluding defendants' claim that plaintiffs themselves distribute counterfeit books.

This is a question for defense counsel: What is the specific purpose for which you offer this evidence?

MR. BHANDARI: It's for three purposes, your Honor.

First, as Mr. Mandel has already explained to the Court, the precautions that are taken by others in the industry are highly relevant to determining whether or not our clients were reckless in that if they deviated from the normal standards.

In this case we have extensive testimony that the plaintiffs, every single one of the four publishers, receives millions and millions of returned books from -- textbooks. And we also have testimony that they only have a handful of people who expect those textbooks. In many of the instances there's been no training at all for many of the employees who do the inspection; there are simply some written guidelines.

There will be some testimony that the counterfeits have made their way in the inventory of the plaintiffs in this

case. So looking at their own actions --

THE COURT: Aren't you comparing apples to oranges? Because aren't the plaintiffs very different from the defendants in that the plaintiffs are book publishers and you're a book distributor?

MR. BHANDARI: The plaintiffs and the defendants have the exact same goal, which is to prevent the distribution of counterfeit textbooks from entering the market.

As the plaintiffs have argued multiple times, it hurts their reputation, it hurts their brand, it obviously hurts their profits for -- there would be counterfeit books that are being distributed. So they have a very strong incentive -- very similar incentives to what the defendants have. They conduct trainings telling everybody else what practices they should -- textbook distributors should implement in order to prevent the distribution of counterfeit books.

THE COURT: Does this evidence tie into your first sale defense?

MR. BHANDARI: Yes, so that was the second point. Like I said, there is three.

So the first is the practice of everybody who is distributing textbooks, including the plaintiffs themselves.

The second is the first sale defense. That's obviously a critically important issue.

THE COURT: Would you elaborate on that a little,

because I'm somewhat confused by the argument you're making with respect to the first sale defense.

MR. BHANDARI: Sure, your Honor.

The first sale doctrine says that when a copyright owner sells a lawfully made copy of its work, it loses the power to restrict the purchaser's right to sell or otherwise dispose of that copy. So if the plaintiffs in this case have sold books that were not published by the plaintiffs' regular printers, but were distributed, in fact, lawfully by the plaintiffs, then the fact that used booksellers also distribute that same book cannot possibly be a copyright infringement because of the first sale doctrine.

What we have established through the testimony, deposition testimony, is that there are almost certainly -- oh, excuse me. At least one of the publishers admit that there is certainly at least one counterfeit copy of a publisher's textbook in their inventory. They have no mechanisms whatsoever to cull them out of the inventory. They sell them as new books. Therefore, the argument that the plaintiffs themselves are selling books that have deviations from the way in which the print specifications would have been done if the printing had been done exactly according to the publisher standards indicates that you can't simply say because a book looks different than another book that the plaintiffs have in their inventory, it's automatically counterfeit; because if the

plaintiffs themselves are the ones who are selling books that have deviations and that are different and that were not printed in accordance with their standards, the first sale doctrine precludes them from being able to argue that it's copyright infringement.

THE COURT: How is this argument that you're making now different from what you argued before Judge Gorenstein in *Book Dog 1*?

MR. BHANDARI: The facts that we have now are totally different than what we had in *Book Dog 1*. In *Book Dog 2* we took deposition testimony of various plaintiffs' witnesses. Those witnesses all testified that they received millions of books in returns, every single one of the major textbook distributors that return books, including Amazon, Follett, MBS.

This is kind of an amazing concept. What the plaintiffs testified is that Amazon, who buys new books from the plaintiffs -- let's just take McGraw-Hill. For example, McGraw-Hill sells new textbooks to Amazon. Amazon sells them to customers who buy them on Amazon. But then a certain number, 20 to 40 percent of the total books that they sell to Amazon, get returned by Amazon to McGraw-Hill.

In those supposedly new textbooks that McGraw-Hill sold to Amazon there are counterfeit copies of the exact same textbooks that are being returned by Amazon to McGraw-Hill. Every single one of the plaintiffs testified that they received

counterfeit copies of the allegedly new books that they had sold to these major textbook distributors back from those textbook distributors. That leads to a very obvious inference, that in the first instance the plaintiffs themselves are selling books that they believe to be counterfeit.

How is Amazon, in their inventory, getting books that they believe are new books, and then when they return them to the plaintiffs, the plaintiffs look at those books and they say, Oh, we happen to find one of these copies is a counterfeit. The answer is the plaintiffs obviously have in their inventory counterfeit copies, what they call counterfeit copies, but, in fact, they are very good copies, because what's really happened here is they were in the inventory of the plaintiffs to begin with, the plaintiffs sold them to somebody else; and because the first sale doctrine, the plaintiffs cannot bring a copyright infringement action. That testimony was only established in *Book Dog 2*.

Second, we have testimony from one of the booksellers saying, We definitely have at least one allegedly counterfeit copy -- not allegedly. He said, We have at least one counterfeit copy in our inventory at this very time when he was being deposed in September of 2017. That's a big difference. That's the reason why the first sale doctrine is very much implicated here.

When Amazon, Follett, MBS, and every other major

textbook distributor is returning counterfeit copies to the plaintiffs of books that were allegedly new books that are only being returned, that indicates the plaintiffs are selling counterfeit books to people.

MR. OPPENHEIM: Your Honor, there's so much to respond to. May I?

THE COURT: Yes.

MR. OPPENHEIM: Let me first start with just the basic proposition.

The reason we briefed these issues to your Honor is so that when a party makes a claim, they put forward the evidence to support the factual claim and it's before your Honor, we get to see it, and we can respond to it.

Mr. Bhandari has put forward so many assertions to you of certain facts that aren't in their briefs, frankly, I don't believe the testimony is anything remotely close to what he says.

It's a very dangerous game we're playing. If you're going to put forward facts to support an argument, you need to put it in your briefs and you need to be able to cite to it, and we then get an opportunity to respond to it. These claims that Mr. Bhandari is making are not supported and should not be given any weight by the Court. That's number one.

Two. His arguments about this -- if you look at them, he uses the words "if," "likely," "almost certainly." What

he's talking about are possibilities that the plaintiffs have sold counterfeit books. The defendants, your Honor, cannot point to the plaintiffs having distributed counterfeit books. They can't.

Very late in the game, one week before discovery closed, their corporate witness testified that the basis for their assertion that the plaintiffs had distributed counterfeit books was that they had received three books from the plaintiffs that they believed were counterfeit. This was a week before discovery closed; this was the very first time the plaintiffs heard of this. I went back, I checked all the Rule 26 disclosures; nothing in there. I can hand them up to you, your Honor; they are not in there.

When your Honor ordered the defendants to put forward the factual basis for their affirmative defenses and they submitted in August of this year a detailed factual basis for the first sale defense, not a single reference to an individual buyer.

So the first time we learn about the claim is one week before. They've never produced the books; we've never had an opportunity to inspect them. And then when we finally, after that deposition, go back and find the documents, your Honor, that supposedly support this claim, these are sales that apparently -- though it's hard to tell -- occurred in 2014 and '15, so years and years ago, for titles not in the case, not to

them.

And I must, your Honor, just by way of example, if I can hand up a copy of the documents, show you the types of documents that they are relying on for this argument. I don't want to burden the Court with too many of them, but may I, your Honor?

THE COURT: Yes.

MR. OPPENHEIM: For purposes of the record, your Honor, I'll note that what I've handed up is a document which is Bates labeled BDBCEN0004343 through 4346.

This is apparently one of the books they claim that the plaintiffs distributed that was counterfeit, not a book in the case, your Honor. This is all we have. We've never actually seen the book; we've got these documents. As you can see by turning to the documents, the third page, the copyright page, is cut off; can't really see the detail on it.

But the claim that this came from the plaintiffs is based on the last page of the document, your Honor. And this is all we have. This is the basis for this whole argument that they have, that the plaintiffs distributed a counterfeit book. If the document you have is cut off, your Honor, my apologies, but that's what was produced to us. It's apparently a purchase order from Amazon in 2014; to whom, I don't know. This is the basis of their defense.

So, your Honor, first off, on this first sale -- so on

the first sale defense, they are relying on these books. Now, when you ask Mr. Dimm -- we asked Mr. Dimm, Well, are these books counterfeit?

THE COURT: Let me ask a more fundamental question for a second. Are any of these arguments specifically tied to any of the books that are at issue in this case?

MR. OPPENHEIM: Absolutely not, your Honor. Absolutely not.

THE COURT: Mr. Bhandari, are any of them tied to books that are at issue in this case?

MR. BHANDARI: Your Honor, we believe that --

THE COURT: No, it's really -- it calls for a yes-or-a-no answer.

MR. BHANDARI: Yes, we intend to tie it to the books in this case.

THE COURT: Which one? Which title?

MR. BHANDARI: Every one of their titles. We intend to establish that they received returns from every single one of the major textbook distributors. In those returns there are frequently counterfeit books. And I can provide you, by the way -- it was totally wrong what Mr. Oppenheim said that this is not included in our briefing. It's included on pages 13 and 14 of our opposition to plaintiffs' motion *in limine*. I can go through the details. But everything I said is cited here. I can read you the deposition transcripts that were included.

These depositions were taken in September of 2017, so that's the reason why the information that we obtained in September of 2017 was obviously not included as a factual predicate for our affirmative defenses in August of 2017.

For every single one of the books we're going to establish that there have been a very high volume of returns; that in those returns they come from textbook distributors who have returned counterfeit books to the plaintiffs.

THE COURT: How are you going to establish this?

MR. BHANDARI: We are going to ask the same witnesses that I asked during the depositions, the witnesses for the plaintiffs. They are going to be under oath; they have to tell the truth; they are going to have to admit every single one of the titles that are at issue in this case. They received thousands and thousands of returns for every single one of those titles. And for every single one of those titles they are going to say that they received returns from the textbook distributors who have returned counterfeit books in the --

THE COURT: Is that what they've said in deposition?

MR. BHANDARI: Yes. I will read to you the deposition section that we cite in our papers.

THE COURT: Spare me.

On this motion I'm going to require you to submit a letter to me laying out what the evidence is of specific titles that are at issue in this case. And you can get me such a

letter by Monday the 18th.

MR. BHANDARI: So to be clear, your Honor --

THE COURT: I've got to move on.

MR. BHANDARI: To be clear, your Honor, there is nothing more than what I just described, which is -- we are going to ask questions indicating that they received thousands of returns; and that they received the returns from other companies like Amazon who have included counterfeit books in returns that they've sent to the plaintiffs. That is not -- we don't have anything more than that.

THE COURT: That already sounds more opaque than what you said to me two minutes ago about the evidence you're going to offer in the case, that's why I want to see a letter.

MR. BHANDARI: Okay.

THE COURT: Okay?

The plaintiff can respond to that letter by December 21, all right? I'll give you three business days to respond to their --

MR. OPPENHEIM: Close of business --

THE COURT: -- letter of December 18.

Specifically, the proffer has to relate to books that are at issue in this case; titles that are at issue in this case.

Now, with respect to --

MR. BHANDARI: Your Honor? Sorry.

The other argument that we have is their general practices of not inspecting the books that are coming in or inspecting them to the standards by which they are inspecting them should be --

THE COURT: That's in your papers. We can move on.

MR. OPPENHEIM: Affirmative defenses, your Honor?

THE COURT: Yes.

For plaintiffs' counsel, some of the affirmative defenses that you're seeking to strike were not previously stricken by Judge Gorenstein. Is it really appropriate to decide the merits of an affirmative defense through a motion *in limine*?

MR. OPPENHEIM: So can I back up, your Honor, just for organizational purposes?

So there are certain defenses which I think it is, your Honor. I believe we're probably down to just only nine affirmative defenses that are really left before the Court, if I'm correct in my math.

So starting with 52, for 38 of them in their August filing, the defendants acknowledge they are not seeking a jury instruction; so it's not an affirmative defense, so I believe it can be stricken. I think that left us with 14. And of those 14, I believe five of them in defendants' papers, they've indicated they just want to preserve for appeal. So I believe the Court can just rule based on collateral estoppel, and that

brings us down to just nine affirmative defenses to address.

One of those affirmative defenses, the for sale doctrine, I believe we've just kind of handled, your Honor, in the context of --

THE COURT: Move on.

MR. OPPENHEIM: Right. Okay.

So then with respect to the remaining eight, some of them, I think, are very easy to deal with, your Honor. For instance, affirmative defense No. 11, defendants' good faith and commercial reasonableness bars plaintiffs' claims. The defendants lumped it in with affirmative defense 12, innocent infringement.

I think we all know that your opinion on innocent infringement in BDB1 will apply to BDB2. So while the plaintiffs may disagree with that, that's the law that's going to apply to the case. But certainly I think we can all agree that there is no affirmative defense and copyright that good faith and commercial reasonableness bars a claim. There's no legal basis for that; defendants haven't put one forward; that can be stricken; defendants have nothing to support that. I think they almost acknowledge that in their filing by lumping it in with innocent infringement.

The next one, affirmative defense 13, your Honor, unconstitutionality of statutory damages, not an affirmative defense, your Honor. To the extent that they have a post-trial

issue on whether or not whatever damages are awarded are constitutional, it's a post-trial issue; it's not for the jury, it's not an affirmative defense. I believe that can be stricken. For purposes of an affirmative defense, it doesn't --

THE COURT: Can't much of this be dealt with at the trial?

MR. OPPENHEIM: Your Honor, the only reason I don't say yes is because I am concerned that in the absence of the Court striking some of these, that the defendants are going to put forward arguments on these defenses to the jury in their opening and in their examination and in their closing as though they are part of the case.

Let me give you an example, your Honor.

THE COURT: They won't be making them in their closing if I strike them after the evidence is in. And if they make them in their opening and they are on thin ice, they are doing it at their peril.

MR. OPPENHEIM: Your Honor, we all say that about openings and arguments that are made at their peril, but we would rather narrow this case.

Defendants can't point, for example, to a single fact to support their statute of limitations argument. They've taken two dozen depositions across the cases; they've been unable to cite to a single fact to suggest that any of the

claims are stale as a matter of the statute of limitations. By the way, laches we all know is out as a matter of law on the copyright side.

So they've been given two opportunities now to put forward facts on statute of limitations. One in the August filing before your Honor, and two in these briefs. They can't cite to a single piece of evidence that they can say the plaintiffs should have known more than three years before the case was filed. They should not raise the issue in the case; they should not examine witnesses on it. Let's narrow it; let's not confuse the jury. If they've got something, put it forward, but they don't. Let's strike it; let's narrow this case; let's try not to be here for three weeks; let's try not to confuse the jury; let's try to have a targeted case.

So that's a very good example.

Your Honor, arguing on the constitutionality, they really shouldn't say to the jury that there's some test for the jury to be considering as to the connection between actual damages and whatever copyright damages the jury might award. That's not for the jury to be considering as a matter of constitutionality and they shouldn't argue that. I don't want to have to retry the case after they bungle the opening on these issues, your Honor; and then we have to decide whether it was harmless error or not.

I could keep going through the remaining defenses,

your Honor.

THE COURT: I'm sure you could, but life is short.

Let's move on to the defendants' motions.

MR. OPPENHEIM: Can I make one quick last point, your Honor, even though life is short?

We agreed not to file summary judgment motions in this case; but one of the reasons was was we assumed that we would be trying to narrow the case for trial. That's what we are trying to do now, your Honor.

THE COURT: All right.

The defendants' omnibus motion to preclude plaintiffs' roadmap.

First, for the defendants, there's nearly three months remaining before trial. Plaintiffs have said they are willing to work in good faith to correct any problems that you have -- that the defendants had with the roadmap. Why can't the parties work together to create a document that they both agree on?

MR. MANDEL: In principle I totally agree with that, your Honor. When I started on this case two years ago, I took a look at the docket and I said, This is absolutely insane. How could a docket look like this? There's way too much fighting in this case. I'm very embarrassed and sad to say that since I took over, there hasn't been much less fighting. I don't know why that is, but that is where we are.

All I can say on this issue is it's very difficult for the parties to voluntarily get to an agreement on any issue, as your Honor is aware.

THE COURT: Don't you think that the jury is going to need something like a roadmap to help them understand the evidence in the case?

MR. MANDEL: I think an accurate roadmap that fairly summarized the evidence would be helpful to the jury. To cut to the chase, if the plaintiffs are willing to commit to working collaboratively to create a comprehensive roadmap, we are totally open to doing that as well.

That means that the roadmap needs to say how many allegedly counterfeit copies they found in our customers' shelves. They can't tell the jury, Book Dog Books bought 100 copies from Best Books World, then not mention all of our other suppliers, and then say that they found -- then we sold 100 copies to MBS and then say they found one sticker -- MBS. It's got to say where all of our sources are comprehensively. There's got to be a true summary. Here's where we got all of our books from. Then it's got to say, Then we went to MBS. Here's what we found. We found that MBS bought X number of copies. MBS had Y number of copies on their shelf. That way the jury can accurately say is it more likely than not that defendants sold a copy of book to MBS.

THE COURT: Won't that make a roadmap so unwieldy that

it won't be useful to a jury?

MR. MANDEL: I see it very differently, your Honor.

We believe that if the roadmap they have is the only evidence of sales that's presented to the jury, one, we think it's inadmissible for all the summary evidence requirements that it doesn't satisfy; but we don't think they could get past the judgment as a matter of law because it's insufficient circumstantial evidence to permit an inference.

You can't simply say, You sold 100 copies to MBS and one copy we found there was counterfeit. This is a problem of probability. It's not unlike dipping your hand into a jar of marbles and pulling out one marble. We are asking the jury to say, Is it more likely than not that the marble that was pulled out of that jar came from defendants, when the jury doesn't know how many marbles were in the jar, how many counterfeit marbles were in the jar, and where the marbles in the jar came from. That is simply, as a matter of probability, in our opinion, insufficient statistical evidence.

It doesn't have to be complicated. It can be provided in a very simple layout where the jury sees there were X number of books from other major distributors.

THE COURT: Can't you bring all that out on cross-examination without trying to filter everything into a roadmap?

MR. MANDEL: So you're saying we'd go through each of

the 161 titles; and for each title we would say to one of -- I'm not sure who we'd say it to because a lot of this testimony comes from third parties that are not based in New York. But you're saying for each of the 161 titles we would say, Okay, you found this roadmap here. I'm also not sure who we'd ask because the lawyers create the roadmap.

But let's assume they have some witness that suddenly can testify competently to the roadmap. We would say to that person, How many copies did MBS buy in total? And they would say, I have no idea. And then I guess we would show them the MBS document, and they would say, I don't know if this document is accurate or not.

If that's the direction we go, I think what will happen is either the roadmap will be excluded or we will have a counter roadmap that has all of the information. Because I don't think there's a witness we could go through all of this information with to get it out.

THE COURT: For plaintiffs' counsel, which witness or witnesses of yours are going to have sufficient personal knowledge of the roadmap to allow for its admission?

MR. OPPENHEIM: Your Honor, in BDB1 there were witnesses who were proffered as, for lack of a better term, roadmap witnesses. They were the witnesses who were involved in directing the creation of the roadmap. And they were examined by defense counsel on the roadmap. So they've taken

depositions of those witnesses.

Now, the defendants posit a world where, A, the roadmap should include all the evidence. Well, then it's not really a summary, your Honor, as I think your Honor identified it; it wouldn't be a useful tool. It's not a summary, it would be too lengthy. B, they posit that each entity, each plaintiff, would have had to create their own summary and the individual would have had to do it. Well, now we would have four roadmaps; they would all be overlapping. It just doesn't work. This was done actually before the present defense counsel were involved in the case in coordination with opposing counsel.

So defense counsel has raised some issues with certain aspects of the roadmap. They didn't like certain nomenclature. We've attempted to change that, your Honor. But fundamentally, at the end of the day, we believe that the vehicle is the right vehicle; it's the way to put it forward. Because otherwise this trial will be more than three weeks if we have to put on every single piece of evidence and go through it. It's just totally unmanageable.

THE COURT: It is entirely appropriate in this case to have summary evidence submitted for all of the voluminous records. It's very simple.

I'm directing the parties to meet and confer, to come to an agreement with respect to the roadmap. I'm going to

require you to do that in the next 30 days. If there's a dispute about it, I'm going to send it to Magistrate Judge Gorenstein so that it can be resolved before trial.

Let's move on to the defendants' motion seeking to preclude testimony from employees of -- I think four or five employees of the plaintiffs.

MR. BHANDARI: Thank you, your Honor.

THE COURT: Mr. Bhandari, why do you take issue with these experts being employees of the plaintiffs?

MR. BHANDARI: Your Honor, it goes to the bias that they have.

THE COURT: But can't you examine on that? Is there any precedent that you can point me to that disqualifies them from testifying?

MR. BHANDARI: No, your Honor, not simply for being the employees.

But just to quickly address that point, which is not the most fundamental problem with their testimony, but to quickly address that point, in this instance their testimony was directed by counsel. The reports were written by counsel; the books that were given were marked as counterfeit when they --

THE COURT: That happens all the time in every case, okay. Do you think in an antitrust case that the expert sits and just writes his report and gives it to counsel? Trust me,

that's not the way it happened when I practiced law, and it's not the way it's happened for the last 20 years that I've been a judge.

MR. BHANDARI: Understood, your Honor.

THE COURT: Okay?

MR. BHANDARI: Yes.

That is not a reason to disqualify them in and of itself.

THE COURT: They have opinions that they've gained by virtue of their experience through their employment.

MR. BHANDARI: That is where we disagree, your Honor.

They are basically just simply offering eyewitness testimony. The testimony they are offering is literally no different than what would be in a courtroom if a person who worked for Cosco, who saw a shoplifter, said, I am offering my expert testimony that the person who is sitting at the defendant's table is the exact same as the person in this picture.

THE COURT: Right. But I will tell you that during the course of the jury trial, I'm not going to -- don't ask me to qualify someone as an expert; simply ask me whether their testimony can be heard by the jury under Rule 702. I'll offer to the jury that by virtue of their specialized knowledge or experience, I'm going to permit them to testify and offer some opinions. I don't give product endorsements. That's really

what happens when a lawyer asks a judge to qualify an expert for the jury.

MR. BHANDARI: So in this instance, your Honor --

THE COURT: So don't worry about that. They'll be testifying based on their experience. Whether it is as a fact witness or they're offering some views based upon their experience, that will be lost on the jury, all right. It will be just fine.

MR. BHANDARI: Well, your Honor, what I'm saying is this is a *Daubert* challenge. What we are saying is they cannot testify as experts, they can be produced as experts, for two reasons. One is they are literally offering just eyewitness testimony. And there's nothing that allows eyewitness testimony to be considered expert testimony. That's lay testimony.

Second --

THE COURT: This happened -- no. We're going to move on, okay.

MR. BHANDARI: Your Honor, may I make one more argument?

THE COURT: This happens all the time in the context of art cases and forgeries, all right. It's just like that. We have so-called experts in forgery all the time. It's eyewitness testimony. But it's also expert testimony.

MR. BHANDARI: Your Honor, if I may make one last

argument here.

The methodology that was employed here is not a reliable methodology. This is a critical point. In the forgery cases that you're talking about, there are frequently laboratory tests on paper. In the art cases that you're talking about, there's spectrum analysis that's done to show that the inks in the page could not have been done at a certain time. In this case we have testimony from the plaintiffs' witnesses that there's laboratory analysis that can be done to determine whether or not the paper is the same as the paper in the book that's being examined, and that would be expert testimony that should be employed.

Here, simply having someone say, I know it when I see it, there's slight differences in the variation, that is not a reliable methodology, your Honor. That's what *Kumho* and *Daubert* seek to preclude. If these witnesses had used the laboratory analysis, if they'd used spectrum ink analysis, if they had examined the paper, if they had used any sort of reliable methodology that has been tested and can be endorsed by this Court, that would be fine.

We don't allow people to come into court and to simply opine on their opinions. They have to explain the methodology. For handwriting analysis, for example, there would be studies saying that this particular type of loop can only be done by a person who has made that type of loop many other times; the

analysis has a scientific methodology behind it.

Here you will read these reports, we've highlighted them for you in our motion to exclude these as expert witnesses, and there is no evidence whatsoever that they've employed any methodology that's been tested in any way. So that's why these particular witnesses are very different than the witnesses you see in the cases cited by the plaintiffs.

For example, they cite an employee of Gucci who served as an expert in a trial, because he said this component part of a particular purse is manufactured by Gucci and we supply it to the ultimate manufacturer of this item. This particular component does not fit the components that we send from here to there. There is an established methodology for saying a component has these parts to it and no layperson would be able to tell that without having an expert.

This is totally different. All these witnesses do literally is offer eyewitness testimony. And that's why I started with that. Their methodology doesn't exist. There's no reliability. They don't fulfill any of the factors of *Kumho* or *Daubert*. That's why we've made a motion to exclude here.

THE COURT: Mr. Zebrak.

MR. ZEBRAK: Your Honor, I can go into this at any level of detail your Honor wishes, but at a high level -- and I don't say this lightly, because I don't put accusations like this into -- or statements like this into briefs or open court.

This is just a gross misrepresentation of both the law, what these experts did by way of their work here. The facts of the case, the law and, at best, at very best, these bogus criticisms go to weight and can be brought out on cross-examination. I can go through and explain what the methodology was. It was not an *ipse dixit*, close my eyes, a counterfeit.

This sort of testimony where you compare a known legitimate authentic product from your employer that you know well against a book under review, it happens all the time. That they pitch it as novel and unprecedented is just flatly inaccurate.

MR. BHANDARI: They don't use that methodology, your Honor. For example, they said they don't even know where some of the books came from that they are using as examples.

THE COURT: Gentlemen, it's enough. We're moving on to the next motion, the defendants' motion to preclude Harry Steinmetz's testimony.

Don't the defendants' concerns here all go to the conclusions that Steinmetz reached? Isn't that what the objection really is? You don't seem to challenge his expertise or methodologies; you challenge his conclusions. Am I right about that?

MS. VICKERS: No, your Honor, with all due respect.

There are a number of issues with Mr. Steinmetz's

report that relate to not specifically his conclusions, but, rather, to him reaching issues that are irrelevant and that are highly prejudicial.

So the first of those is his conclusions and statements about the reasons for the defendants' corporate structure. For example, Mr. Steinmetz says he doesn't understand the economic reasons for it; he questions the need for multiple layers; he believes that multiple layers may be used to disguise ownership. Those statements have nothing to do with the relevance information, to the extent that Mr. Steinmetz's report is relevant at all, his testimony is relevant at all, it's relevant to any profits that --

THE COURT: That's a conclusion, right?

MS. VICKERS: Well, but it is --

THE COURT: It's a conclusion.

MS. VICKERS: It isn't a conclusion that has anything to do with the actual relevant legal standard in this case.

THE COURT: Haven't the parties agreed that Steinmetz is not going to speculate on the possible motivations of defendants' corporate structure?

MS. VICKERS: Well, the plaintiffs say that in their papers; and yet in his report he does just that. He says that he's --

THE COURT: Isn't it a judicial admission when plaintiffs say that they are not going to offer testimony from

Steinmetz speculating about the reasons for defendants' corporate structure?

MS. VICKERS: If that's your Honor's finding, then we would agree with that. If the plaintiffs will agree that the only -- if the plaintiffs' papers are interpreted to mean --

THE COURT: Am I right about this, Mr. Oppenheim?

MR. OPPENHEIM: Your Honor, what Mr. Steinmetz says in his report and what we said in our filing, your Honor, was we don't intend to affirmatively have him testify as to the intent behind the corporate structure, whatever that may be.

Everything that defendant is raising right now is what Mr. Steinmetz says in response to the testimony by Ms. Cox, the chief financial officer. So Ms. Cox posited that the reason for the complex structure, corporate structure, is for tax planning and compliance purposes.

So Mr. Steinmetz then responds to Ms. Cox's assertion.

So if defendants don't intend to put forward any witnesses who says, The reason we have this crazy structure is for tax planning and compliance reasons, then there will be no issue. If, however, they intend to defend this structure, then of course Mr. Steinmetz may be called to respond to that and say, I don't see that. There's no tax planning purposes for it. So that's what we've said in the brief, your Honor, and that was what Mr. Steinmetz says in his report.

MS. VICKERS: Your Honor, Ms. Cox's testimony was in

response to questions by plaintiffs' counsel, where they were trying to establish the predicate for this assertion by their expert and that there's something shady or improper about this corporate structure.

The fact of the corporate structure is not the issue. The issue are the allegations that there is something that Mr. Steinmetz doesn't understand about it or there's some other reason for it. There's something unstated, and that implies to the jury that there's some nefarious purpose.

THE COURT: That's all speculative. I'm not going to permit that.

Let me ask plaintiffs' counsel on another aspect of his testimony, why does the jury need to hear about the defendants' cash flow? What does that have to do with the issues in this case?

MR. OPPENHEIM: Your Honor, the cash flow analysis demonstrates -- it gives the jury an understanding of the size and profitability of defendants' enterprise. The profit figures, your Honor --

THE COURT: If they are looking at a cash flow analysis, isn't that likely to cause confusion with the jury about defendants' profits?

MR. OPPENHEIM: Your Honor, I have no doubt that the defendants will ably -- to the extent that plaintiffs leave any confusion as the distinction between profits and cash flow,

that defendants will raise that and explain that to the jury through their cross-examination and their own witnesses.

To the extent that the plaintiffs put forward a cash flow analysis, the point is to take out of the analysis those types of treatments in a profitability analysis that don't come through in a cash flow analysis. So Mr. Steinmetz would explain the distinction between the two, and the jury would have both. Frankly, I'm sure that the jury will understand. There's a huge difference between the money they put in their pocket and what their tax return says sometimes. So I believe the jury is capable of understanding this and won't be confused.

MS. VICKERS: Your Honor, may I respond?

THE COURT: Go ahead, Ms. Vickers.

MS. VICKERS: So there is no reason -- as your Honor noted, the cash flow analysis is not relevant; it's not part of the elements that the jury is to consider. It's clearly set forth by Second Circuit law that it's the profits they can consider. The cash flow analysis is -- this is plaintiffs' attempt to put a large number in front of the jury. There's no reason for it other than to confuse them.

Quite frankly, your Honor, we've ended up in this place with all these competing motions concerning the financial analysis and discovery because the plaintiffs really are attempting to put on a mini trial here about defendants'

financials.

The *Book Dog Books 2* is an add-on case; it's a case involving approximately 55 books. There's been extensive financial discovery, including the production of audited financials for the defendants in this case.

What we are trying to do here is to simplify issues for the jury and allow the jury to focus on what the key issues are in this case, which obviously is liability. To the extent damages become an issue --

THE COURT: But profits are a relevant consideration for statutory damages, aren't they?

MS. VICKERS: They absolutely are, your Honor. We've produced audited financials that set forth the profits.

THE COURT: All right.

The last motion relates to the adverse inference instruction.

For the plaintiffs, you say that it's too burdensome to do more discovery at this point and only an adverse inference motion is appropriate; but you've still got three months till trial. What else would you need other than to depose Ms. Cox on her conclusions?

MR. OPPENHEIM: Two responses to your question, your Honor.

First is --

THE COURT: Get a little closer to the microphone.

MR. OPPENHEIM: I'm sorry. My voice is fading.

At the time that we filed the motion, your Honor, the trial date was not March 19. So there certainly is more time now undoubtedly.

THE COURT: Right.

MR. OPPENHEIM: And if the parties work together, I suppose with additional litigation we may get through their failure to produce.

THE COURT: I'm thinking that this motion can melt away, just like the snow outside this morning, with a little more discovery.

MR. OPPENHEIM: Your Honor, I believe we've been back to Judge Gorenstein six times on this issue of the financial records, five or six. It really has been banging our head against the wall, your Honor.

THE COURT: It's just that an adverse inference instruction is just an extreme measure. There's certainly adequate time for further discovery.

MR. OPPENHEIM: Your Honor, we could have gone to Judge Gorenstein after the first noncompliance and asked for sanctions. We didn't. To say that we have been diligent and patient is an understatement, because we asked for these records in the very first document requests. It has been painful, the number of meet-and-confers which have been useless, the defendants' representations to the Court, which

have been useless. And even now, your Honor, we're still there.

Let me give you an example.

What the defendants' opposition says is, We've produced these records. But what they really say, if you look at it in detail, is, It's all contained within the audited financial statements.

It's not. It's not in the audited financial statements. If it were in there, we wouldn't be filing the motion. We've asked for the records behind it. In fact, Ms. Cox, during her deposition, was asked certain questions. She said, I can't answer them. Some she could, based on the audited financial statements, but others she couldn't. She said, I need to look at the underlying documents that were provided to my accounting firm to prepare the financial statements.

We don't have those.

THE COURT: The defendants say that what you're seeking simply does not exist.

MR. OPPENHEIM: Your Honor, it does. I mean there are many, many entities involved here; and they have documents associated with P&Ls balance sheets, tax returns, distribution statements. They have the documents because these are companies that are reporting profits.

I'll give you an example.

So Mr. Smyres purchased personally the real estate on which his companies operate. He then leases personally that back to the companies for them to use the space.

Ms. Cox testified, Well -- we asked her how the rent was determined. She said, I don't know.

We said, Well, is it fair market value?

She said, I have no reason to believe that. I don't know. And she said, I think it's just based on the value of the mortgage, in which case you would see a balance sheet that shows -- or, excuse me, a P&L that shows zero profit, right. It's not. Those companies annually have profits, but we don't have the details of them, right.

So they say, Well, it's in the statements.

It's not in the statements.

So we've sent the defendants a letter -- and unfortunately I didn't bring it with me, your Honor -- earlier this week, after your Honor suggested that we should try to solve this issue, requesting certain financial documents to try to move this issue forward.

Frankly, I don't think we should have to. I think after going back to the Court six times, I think it's fair to say, You know what? We've spent enough time and money on this. They should be hoisted on their own petard. They brought this on themselves; it wasn't us doing it. They could have done what they did in BDB1 and produced complete financial records.

This firm chose not to. And they apparently have done that before. So we are where we are.

Now, if your Honor wants us to try to solve it, even though I respectfully disagree and say, We went back to the Court enough and they should be subject to sanction at this point, if your Honor wants us to try to solve it, we will.

But here's what I think they are going to do: They are going to tell us, We are not going to give you the documents you've asked for. You can figure out what you need to figure out based on the annual financial statements, which obviously we can't, because our expert has said they are insufficient. So we'll take the deposition of Ms. Cox. She will or won't be able to testify as to certain things, and we'll be back here.

So I'm not telling you, your Honor, that you have to rule in our favor on the adverse inference motion as a matter of law. I think you should. I think we've demonstrated in that motion that we've done more than enough to try to get these records. And then at some point we shouldn't have to spend more money chasing down these financial records. I think at some point you say, Five motions to compel is enough.

But if your Honor wants us to solve it, the defendants should be instructed, without hesitation they should produce every financial record we asked for expeditiously and then we'll taking the depositions. But it has to be one or the

other; we shouldn't go through more gamesmanship and then end up briefing an entirely new motion to your Honor and have to set another argument where we are back here doing this again.

MS. VICKERS: Your Honor, may I respond to that?

THE COURT: Yes, Ms. Vickers.

MS. VICKERS: There are many, many statements Mr. Oppenheim made that are just inaccurate.

Starting with --

THE COURT: Just cut to the top two statements, all right?

MS. VICKERS: Absolutely.

Primarily the allegation that we have not complied with Judge Gorenstein's orders is entirely incorrect.

We went before Judge Gorenstein on the scope of financial discovery. The plaintiffs asked for certain documents; we produced them. They asked for different documents; we produced them.

With respect to the last set of documents that were produced, the plaintiffs asked for those two days before the close of discovery. We agreed to produce them without an order because we wanted to put this behind us; we wanted to provide as much financial discovery as they needed in this case and move on because we had a trial at that point within just weeks.

They did not come back to us before the second deposition of Ms. Cox and say, Look, you know what? The

documents you produced don't have enough detail on X, Y, or Z. They deposed Ms. Cox and then we were hit with this motion.

The reality is that the documents that they requested have been produced. To the extent that they are asking for additional information, we are willing to have a conversation with them. They did send us a letter Tuesday night. We have not had a chance to fully review it, but we are certainly willing to discuss with them whether there's anything they think we've overlooked.

Plaintiffs continue to assert -- this is the other thing that I need to be very clear about. They continue to assert that there's missing information, when they are simply misinterpreting what they received.

So, for example, for the two real estate companies that Mr. Oppenheim described, the defendants, although they are not companies that sell books and buy books, we agreed -- again, without any order from Judge Gorenstein, we agreed to produce the financial records for those entities. We did do that. Even though they are small companies and they, in fact, don't produce -- generally create paper records every year, our client went ahead, prepared these documents. This is all set forth in our briefing and in the letter that we sent to Judge Gorenstein at the time. We created these documents; we produced it to them. Those documents established that there are profits, and those profits stayed with the companies.

There isn't some other there there. We've produced what's exist there.

Having said all of that, we are willing to look at their letter and see if there's anything else that we can resolve here. But I don't think that -- the insinuation that the defendants have not been complying and not provided adequate financial discovery in this case is improper.

THE COURT: All right. But I think at this point you should be working together to do some more -- do the discovery. I haven't seen this letter that plaintiffs' counsel sent on Tuesday to you. Work together on this.

MS. VICKERS: We're happy to do that, Judge.

Just one question. That letter covers a number of categories of documents that the plaintiffs have never requested before. We'll look at that; we'll consider whether we think any of that's appropriate. To the extent that we don't agree with that, would you prefer that we come back to you or to Magistrate Judge Gorenstein?

THE COURT: No. Magistrate Judge Gorenstein will welcome you. I don't have enough hours in the day --

MS. VICKERS: Thank you, your Honor.

THE COURT: -- to deal with it.

All right. At this point other than what's been noted on the record, I'm reserving on all of the motions *in limine*.

It is my intention to get an opinion and order out to

you on almost all, if not all, of these motions, and to do so before the end of the year.

Now, we're currently set to have you submit your joint pretrial order on January 10. That, in my view, no longer makes sense. I want to pick a new date for that so that you have an opportunity, one, to complete some of these discovery issues before Magistrate Judge Gorenstein, work together on the roadmap, and have the benefit of my rulings on *in limine* so that you know how the trial is going to shape up.

Keeping all of that in mind, is February 28th a good date to shoot for for a joint pretrial order?

MR. MANDEL: Yes, your Honor.

MR. OPPENHEIM: Fine with plaintiffs, your Honor.

THE COURT: All right.

I'd like to get a joint request to charge from you by March 9. "Joint" means joint, not 100 competing charges. I'm only interested in the substantive charges. Don't propose a charge to me on circumstantial evidence; I'm enamored of my own. All right?

If there's any voir dire then that's unique to this case, you can submit that individually also by March 9.

Is there anything else at this point that the parties believe needs to be discussed?

Mr. Oppenheim.

MR. OPPENHEIM: Your Honor, if I may just return to

your request with respect to our meeting and conferring on the roadmap and offer maybe a suggestion to move the process forward.

We very much want to resolve any disputes on the roadmap in advance of trial because --

THE COURT: Of course.

MR. OPPENHEIM: -- we don't want to be in a position where at trial suddenly we're changing gears and putting on a different case. So it would be very useful if there were a process whereby defendants identified all of their issues and concerns with respect to the roadmap to us, and we could try to address or not address, and then brief that to Judge Gorenstein, and to require that they tell us everything, let us try to fix it, as opposed to just telling us to meet and confer.

So if they give us a laundry list, I don't care if it's 100 items, your Honor, tell us everything that you have concerns with so that we can try to address it. That would be a process that I believe will get us ultimately to the place that your Honor wants us.

THE COURT: When can you do that, Mr. Mandel?

MR. MANDEL: I think a more sensible process would be for us to take one or two titles, send them over -- create a roadmap page that we think is appropriate, and send that over. If that's agreeable to them, fantastic; if it's not agreeable

to them, then we'll meet and confer on the two versions and see if we can get to the middle. I think that's the best approach.

THE COURT: What about that?

MR. OPPENHEIM: To deal with some of their issues, I think that works. One of the issues that they raised at the very kind of tail-end of their briefing was concern about some of the underlying evidence supporting the roadmap. And to the extent that they've got any concerns with that evidence, I'd like to have that laid out which --

THE COURT: All right. First, I think that you should sit down in the next week and meet and confer about this. To the extent that you cannot agree on the format for the roadmap and the content of the roadmap, you can set it forth in a letter that ultimately will go to Judge Gorenstein. I'd like to be copied on that letter so that I've got a gift from you during the holidays that I can read and reread.

So submit any such letter by -- we'll miss Christmas, but I'll save it for the new year -- December 29. That way you can tee the matter up with Judge Gorenstein.

Anything else?

MR. OPPENHEIM: Not from plaintiffs, your Honor.

THE COURT: Anything further from the defendants?

MR. MANDEL: Just with respect to voir dire, how does your Honor conduct it?

THE COURT: We'll talk about all -- I've got other

matters on. We'll talk about that at a final pretrial conference that I'm going to fix right now for March 16, 11:30.

Anything else?

MR. MANDEL: Thank you, your Honor.

MR. OPPENHEIM: No, your Honor.

THE COURT: Have a great holiday.

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